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**Item 14. Principal Accountant Fees and Services**

PricewaterhouseCoopers LLP (or its predecessor, Coopers & Lybrand L.L.P.) has audited our financial statements since 1991. The aggregate fees billed for professional accounting services by PricewaterhouseCoopers LLP for the fiscal years ended December 31, 2006, and December 31, 2005 are as follows:

| | Fiscal Year Ended December 31, 2006 | Fiscal Year Ended December 31, 2005 |
|---|---|---|
| Audit Fees (1) | $ 2,163,546 | $ 993,644 |
| Audit-Related Fees | — | — |
| Tax Fees (2) | 40,851 | 14,696 |
| All other Fees (3) | 2,437 | 2,474 |
| Total Fees | $ 2,206,834 | $ 1,010,814 |

(1) Audit Fees consist of fees for PricewaterhouseCoopers LLP's professional services rendered for the audit of the Company's consolidated annual financial statements and review of the interim consolidated financial statements included in quarterly reports. Fees relating to professional services rendered for the audits of management's assessment of the effectiveness of internal controls over financial reporting and the effectiveness of internal control over financial reporting are included under "Audit Fees".

(2) Tax Fees primarily relate to statutory tax compliance and technical tax advice in both years presented.

(3) All Other Fees consist of fees for products and services other than the services described above. During fiscal 2006 and fiscal 2005, these fees related to a license to PricewaterhouseCoopers LLP's online accounting and auditing research tool and disclosure checklist.

**Policy on Audit Committee Pre-Approval of Audit and the Permissible Non-Audit Services of Independent Registered Public Accounting Firm**

The Audit Committee's policy is to pre-approve 100% of all audit and permissible non-audit services provided by the independent registered public accounting firm. These services may include audit services, audit-related services, tax services and other services. Pre-approval is generally provided for up to one year and any pre-approval is detailed as to the particular service or category of services and is generally subject to a specific budget. The independent registered public accounting firm and management are required to periodically report to the Audit Committee regarding the extent of services provided by the independent registered public accounting firm in accordance with this pre-approval, and the fees for the services performed to date. The Audit Committee may also pre-approve particular services on a case-by-case basis.

**Independence of PricewaterhouseCoopers LLP**

The Audit Committee has determined that the accounting advice and tax services provided by PricewaterhouseCoopers LLP are compatible with maintaining PricewaterhouseCoopers LLP's independence.

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## PART IV

### Item 15. Exhibits and Financial Statement Schedules

**(a)(1) Financial Statements**

The following consolidated financial statements of the Registrant and Report of PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm, are included herewith:

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**Report of Independent Registered Public Accounting Firm**

To the Board of Directors and
Stockholders of Rambus Inc.:

We have completed integrated audits of Rambus Inc.'s consolidated financial statements and of its internal control over financial reporting as of December 31, 2006, in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

Consolidated financial statements

In our opinion, the accompanying consolidated financial statements listed in the index appearing under Item 15 (a)(1) present fairly, in all material respects, the financial position of Rambus Inc. and its subsidiaries at December 31, 2006 and 2005, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2006 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 3 to the consolidated financial statements, the Company has restated its 2005 and 2004 consolidated financial statements.

As discussed in Note 2 of the Notes to the Consolidated Financial Statements, effective January 1, 2006, the Company changed the manner in which it accounts for stock-based compensation.

Internal control over financial reporting

Also, we have audited management's assessment, included in Management's Report on Internal Control Over Financial Reporting appearing under Item 9A, that Rambus Inc. did not maintain effective internal control over financial reporting as of December 31, 2006, because of the effect of the Company's insufficient personnel with appropriate accounting knowledge and training, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The

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Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. The following material weakness has been identified and included in management's assessment:

> *Insufficient personnel with appropriate accounting knowledge and training.* The Company lacked a sufficient complement of personnel with an appropriate level of accounting knowledge, experience and training in the application of generally accepted accounting principles commensurate with their financial reporting requirements.

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Specifically, this control deficiency resulted in audit adjustments that corrected an understatement of revenue and adjustments to deferred revenue, deferred rent, property and equipment, depreciation, consulting expenses and certain accrual accounts and disclosures in the consolidated financial statements for the year ended December 31, 2006, primarily arising from an insufficient review by the Company as to relevant information obtained through communications with personnel in operations and through review of certain key contracts and agreements of unique transactions for such accounts. Additionally, this control deficiency could result in misstatements of the aforementioned accounts and disclosures that could result in a material misstatement to the annual or interim consolidated financial statements that would not be prevented or detected. Accordingly, management has determined this control deficiency constitutes a material weakness.

This material weakness was considered in determining the nature, timing, and extent of audit tests applied in our audit of the 2006 consolidated financial statements, and our opinion regarding the effectiveness of the Company's internal control over financial reporting does not affect our opinion on those consolidated financial statements.

In our opinion, management's assessment that Rambus Inc. did not maintain effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on criteria established in *Internal Control—Integrated Framework* issued by the COSO. Also, in our opinion, because of the effect of the material weakness described above on the achievement of the objectives of the control criteria, Rambus Inc. has not maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control—Integrated Framework* issued by the COSO.

/s/ PricewaterhouseCoopers LLP
San Jose, California
September 14, 2007

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**RAMBUS INC.**
**CONSOLIDATED BALANCE SHEETS**

| *(in thousands, except shares and per share amounts)* | December 31, 2006 | 2005 As restated (1) |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 73,304 | $ 42,391 |
| Marketable securities | 351,055 | 118,416 |
| Accounts receivable | 846 | 954 |
| Unbilled receivables | 1,748 | — |
| Deferred and prepaid taxes | 11,388 | 3,827 |
| Prepaids and other current assets | 4,403 | 4,419 |
| Total current assets | 442,744 | 170,007 |
| Marketable securities, long term | 11,982 | 194,583 |
| Restricted cash | 2,287 | 2,279 |
| Deferred taxes, long term | 98,193 | 98,544 |
| Intangible assets, net | 18,697 | 23,650 |
| Property and equipment, net | 26,019 | 19,622 |
| Goodwill | 3,315 | 3,315 |
| Other assets | 1,380 | 3,953 |
| Total assets | $ 604,617 | $ 515,953 |
| **LIABILITIES** | | |
| Current liabilities: | | |
| Accounts payable | $ 10,429 | $ 4,374 |
| Accrued salaries and benefits | 12,788 | 5,894 |
| Accrued litigation expenses | 23,143 | 4,633 |
| Other accrued liabilities | 6,075 | 4,538 |
| Convertible notes | 160,000 | — |
| Deferred revenue | 6,003 | 973 |
| Total current liabilities | 218,438 | 20,412 |
| Convertible notes | — | 160,000 |
| Deferred revenue, less current portion | 1,554 | 8,317 |
| Other long-term liabilities | 2,337 | 3,757 |
| Total liabilities | 222,329 | 192,486 |
| Commitments and contingencies (Note 7 and 17) | | |
| **STOCKHOLDERS' EQUITY** | | |
| Convertible preferred stock, $.001 par value: | | |
| Authorized: 5,000,000 shares; | | |
| Issued and outstanding: no shares at December 31, 2006 and December 31, 2005 | — | — |
| Common Stock, $.001 par value: | | |
| Authorized: 500,000,000 shares; | | |
| Issued and outstanding: 103,820,383 shares at December 31, 2006 and 99,397,257 shares at December 31, 2005 | 104 | 99 |
| Additional paid in capital | 550,210 | 478,519 |
| Deferred stock-based compensation | — | (20,122) |
| Accumulated deficit | (167,396) | (133,382) |
| Accumulated other comprehensive loss | (630) | (1,647) |
| Total stockholders' equity | 382,288 | 323,467 |
| Total liabilities and stockholders' equity | $ 604,617 | $ 515,953 |

(1) See Note 3, "Restatement of Consolidated Financial Statements," of the Notes to Consolidated Financial Statements.

See Notes to Consolidated Financial Statements

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## RAMBUS INC.
## CONSOLIDATED STATEMENTS OF OPERATIONS

| *(in thousands, except per share amounts)* | Twelve Months Ended December 31, 2006 | 2005 As restated (1) | 2004 As restated (1) |
|---|---|---|---|
| Revenues: | | | |
| Contract revenues | $ 26,408 | $ 26,876 | $ 24,742 |
| Royalties | 168,916 | 130,322 | 120,132 |
| Total revenues | 195,324 | 157,198 | 144,874 |
| Costs and expenses: | | | |
| Cost of contract revenues * | 30,392 | 23,733 | 23,527 |
| Research and development * | 68,977 | 49,116 | 38,303 |
| Marketing, general and administrative * | 104,561 | 80,418 | 62,270 |
| Costs of restatement and related legal activities | 31,436 | — | — |
| Total costs and expenses | 235,366 | 153,267 | 124,100 |
| Operating income (loss) | (40,042) | 3,931 | 20,774 |
| Interest and other income, net | 14,337 | 34,830 | 8,368 |
| Income (loss) before income taxes | (25,705) | 38,761 | 29,142 |
| Provision for (benefit from) income taxes | (11,889) | 9,821 | 6,781 |
| Net income (loss) | $ (13,816) | $ 28,940 | $ 22,361 |
| Net income (loss) per share: | | | |
| Basic | $ (0.13) | $ 0.29 | $ 0.22 |
| Diluted | $ (0.13) | $ 0.28 | $ 0.21 |
| Weighted average shares used in per share calculations: | | | |
| Basic | 103,048 | 99,876 | 101,931 |
| Diluted | 103,048 | 103,530 | 108,547 |

| * Includes stock-based compensation: | 2006 | 2005 | 2004 |
|---|---|---|---|
| Cost of contract revenues | $ 8,155 | $ 3,897 | $ 3,293 |
| Research and development | $ 14,902 | $ 8,056 | $ 5,664 |
| Marketing, general and administrative | $ 17,466 | $ 8,507 | $ 9,818 |

(1) See Note 3, "Restatement of Consolidated Financial Statements," of the Notes to Consolidated Financial Statements.

See Notes to Consolidated Financial Statements.

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# RAMBUS INC.
## CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME

| *(in thousands)* | Common Stock Shares | Common Stock Amount | Additional Paid-in Capital | Deferred Stock-Based Compensation | Accumulated Deficit | Accumulated Other Comprehensive Gain (Loss) | Total |
|---|---|---|---|---|---|---|---|
| Balances at December 31, 2003, as previously reported | 99,154 | $ 99 | $278,187 | $ — | $ (38,407) | $ 201 | $240,080 |
| Cumulative effect of restatement | — | — | 159,526 | (50,775) | (86,474) | — | 22,277 |
| Balances at December 31, 2003, as restated (1) | 99,154 | 99 | 437,713 | (50,775) | (124,881) | 201 | 262,357 |
| Components of comprehensive income: | | | | | | | |
| Net income | — | — | — | — | 22,361 | — | 22,361 |
| Foreign currency translation adjustments | — | — | — | — | — | 48 | 48 |
| Unrealized loss on marketable securities, net of tax | — | — | — | — | — | (1,127) | (1,127) |
| Total comprehensive income | — | — | — | — | — | — | 21,282 |
| Issuance of Common Stock upon exercise of options and employee stock purchase plan | 5,162 | 5 | 45,082 | — | — | — | 45,087 |
| Repurchase and retirement of Common Stock under repurchase plan | (1,345) | (1) | (21,652) | — | — | — | (21,653) |
| Deferred stock-based compensation | — | — | 17,403 | (17,403) | — | — | — |
| Adjustment of deferred stock-based compensation for unvested cancellations | — | — | (4,987) | 4,987 | — | — | — |
| Amortization of deferred stock-based compensation | — | — | — | 23,309 | — | — | 23,309 |
| Tax benefit of equity incentive plans | — | — | 23,194 | — | — | — | 23,194 |
| Balances at December 31, 2004, as restated (1) | 102,971 | 103 | 496,753 | (39,882) | (102,520) | (878) | 353,576 |
| Components of comprehensive income: | | | | | | | |
| Net income | — | — | — | — | 28,940 | — | 28,940 |
| Foreign currency translation adjustments | — | — | — | — | — | (160) | (160) |
| Unrealized loss on marketable securities, net of tax | — | — | — | — | — | (609) | (609) |
| Total comprehensive income | | | | | | | 28,171 |
| Issuance of Common Stock upon exercise of options, restricted stock, and employee stock purchase plan | 1,455 | 1 | 8,522 | — | — | — | 8,523 |
| Repurchase and Retirement of Common Stock under repurchase plan | (5,029) | (5) | (28,359) | — | (59,802) | — | (88,166) |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Deferred stock-based compensation | — | — | 2,967 | (2,967) | — | — | — |
| Reversal of deferred stock-based compensation | — | — | (2,033) | 2,033 | — | — | — |
| Adjustment of deferred stock-based compensation for unvested cancellations | — | — | — | 20,694 | — | — | 20,694 |
| Tax benefit of equity incentive plans | — | — | 669 | — | — | — | 669 |
| Balances at December 31, 2005, as restated (1) | 99,397 | 99 | 478,519 | (20,122) | (133,382) | (1,647) | 323,467 |
| Components of comprehensive income: | | | | | | | |
| Net loss | — | — | — | — | (13,816) | — | (13,816) |
| Foreign currency translation adjustments | — | — | — | — | — | (24) | (24) |
| Unrealized gain on marketable securities, net of tax | — | — | — | — | — | 1,041 | 1,041 |
| Total comprehensive loss | | | | | | | (12,799) |
| Issuance of Common Stock upon exercise of options, restricted stock, and employee stock purchase plan | 5,123 | 6 | 57,553 | — | — | — | 57,559 |
| Repurchase and retirement of Common Stock under repurchase plan | (700) | (1) | (756) | — | (20,198) | — | (20,955) |
| Stock-based compensation | — | — | 38,908 | | — | — | 38,908 |
| Reversal of deferred stock-based compensation | — | — | (20,122) | 20,122 | — | — | — |
| Tax shortfall, net from equity incentive plans | — | — | (3,892) | — | — | — | (3,892) |
| Balances at December 31, 2006 | 103,820 | $ 104 | $550,210 | $ — | $ (167,396) | $ (630) | $382,288 |

(1) See Note 3, "Restatement of Consolidated Financial Statements," of the Notes to Consolidated Financial Statements.

See Notes to Consolidated Financial Statements.

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## RAMBUS INC.
## CONSOLIDATED STATEMENTS OF CASH FLOWS

| *(in thousands)* | Twelve Months Ended December 31, 2006 | 2005 As restated (1) | 2004 As restated (1) |
|---|---|---|---|
| Cash flows from operating activities: | | | |
| Net income (loss) | $ (13,816) | $ 28,940 | $ 22,361 |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | | |
| Stock-based compensation | 40,523 | 20,460 | 18,775 |
| Depreciation | 11,248 | 9,102 | 5,646 |
| Amortization of intangible assets and note issuance costs | 8,409 | 5,410 | 2,501 |
| Tax benefit (shortfall) from equity incentive plans | (3,892) | 669 | 23,194 |
| Write-off of cost-based investment | 163 | — | — |
| Gain on repurchase of convertible notes | — | (24,014) | — |
| Gain on sale of investment | — | — | (3,598) |
| Loss on disposal of property and equipment | 342 | 221 | — |
| Change in operating assets and liabilities: | | | |
| Accounts receivable and unbilled receivables | (1,640) | 481 | 8,828 |
| Prepaids, deferred taxes and other assets | (7,940) | 5,680 | (22,262) |
| Accounts and taxes payable, accrued salaries and benefits and other accrued liabilities | 31,761 | 1,377 | 6,637 |
| Increases in deferred revenue | 22,226 | 17,384 | 14,116 |
| Decreases in deferred revenue | (23,959) | (31,917) | (32,495) |
| Net cash provided by operating activities | 63,425 | 33,793 | 43,703 |
| Cash flows from investing activities: | | | |
| Purchases of property and equipment | (14,904) | (8,036) | (11,934) |
| Purchases of leasehold improvements | (3,083) | (531) | (325) |
| Acquisition of intangible assets | (300) | (2,500) | (11,084) |
| Acquisition of business | (1,000) | (5,434) | — |
| Purchases of marketable securities | (215,188) | (347,700) | (119,456) |
| Maturities of marketable securities | 166,191 | 222,142 | 76,812 |
| Decrease (increase) in restricted cash | (8) | 2,788 | (491) |
| Proceeds from sale of investment | — | — | 5,598 |
| Net cash used in investing activities | (68,292) | (139,271) | (60,880) |
| Cash flows from financing activities: | | | |
| Payments under installment payment arrangement | (800) | (400) | — |
| Net proceeds from issuance of Common Stock under stock options and employee stock purchase plan | 57,559 | 8,523 | 45,087 |
| Repurchase and retirement of Common Stock | (20,955) | (88,166) | (21,653) |
| Net proceeds from issuance of convertible notes | — | 292,750 | — |
| Repurchase of convertible notes | — | (112,988) | — |
| Net cash provided by financing activities | 35,804 | 99,719 | 23,434 |
| Effect of exchange rates on cash and cash equivalents | (24) | (160) | 48 |
| Net increase (decrease) in cash and cash equivalents | 30,913 | (5,919) | 6,305 |
| Cash and cash equivalents at beginning of period | 42,391 | 48,310 | 42,005 |
| Cash and cash equivalents at end of period | $ 73,304 | $ 42,391 | $ 48,310 |
| Non-cash investing and financing activities: | | | |
| Property and equipment acquired under installment payment arrangement | $ — | $ 2,800 | $ — |
| Supplemental disclosure of cash flow information: | | | |
| Taxes paid | $ 234 | $ 2,624 | $ 7,737 |
| Taxes refunded | $ 519 | $ — | $ 499 |

(1) See Note 3, "Restatement of Consolidated Financial Statements," of the Notes to Consolidated Financial Statements.

See Notes to Consolidated Financial Statements.

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## RAMBUS INC.
## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 1. Formation and Business of the Company

Rambus Inc. (the "Company" or "Rambus") designs, develops and licenses chip interface technologies that are foundational to nearly all digital electronics products. Rambus' chip interface technologies are designed to improve the time-to-market, performance, and cost-effectiveness of its customers' semiconductor and system products for computing, communications and consumer electronics applications. Rambus was incorporated in California in March 1990 and reincorporated in Delaware in March 1997.

### 2. Summary of Significant Accounting Policies

*Financial Statement Presentation*

The accompanying consolidated financial statements include the accounts of Rambus and its wholly owned subsidiaries, Rambus K.K., located in Tokyo, Japan and Rambus, located in George Town, Grand Caymans, BWI, of which Rambus Chip Technologies (India) Private Limited, Rambus Deutschland GmbH, located in Pforzheim, Germany and Rambus Korea, Inc., located in Seoul, Korea are subsidiaries. All intercompany accounts and transactions have been eliminated in the accompanying consolidated financial statements. Investments in entities with less than 20% ownership by Rambus and in which Rambus does not have the ability to significantly influence the operations of the investee are accounted for using the cost method and are included in other assets.

*Use of Estimates*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

*Revenue Recognition*

*Overview*

Rambus' revenue recognition policy is based on the American Institute of Certified Public Accountants Statement of Position 97-2, "Software Revenue Recognition" ("SOP 97-2") as amended by Statement of Position 98-4 ("SOP 98-4") and Statement of Position 98-9 ("SOP 98-9"). For certain of Rambus' revenue contracts, revenue is recognized according to Statement of Position 81-1, "Accounting for Performance of Construction-Type and Certain Production-Type Contracts" ("SOP 81-1").

In application of the specific authoritative literature cited above, Rambus complies with Financial Accounting Standards Board Statement of Financial Accounting Concepts No. 5 and 6. Rambus recognizes revenue when persuasive evidence of an arrangement exists, Rambus has delivered the product or performed the service, the fee is fixed or determinable and collection is reasonably assured. If any of these criteria are not met, Rambus defers recognizing the revenue until such time as all criteria are met. Determination of whether or not these criteria have been met may require the Company to make judgments, assumptions and estimates based upon current information and historical experience.

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Rambus' revenues consist of royalty revenues and contract revenues generated from agreements with semiconductor companies, system companies and certain reseller arrangements. Royalty revenues consist of patent license royalties and product license royalties. Contract revenues consist of fixed license fees, fixed engineering fees and service fees associated with integration of Rambus' chip interface products into its customers' products. Contract revenues may also include support or maintenance. Reseller arrangements generally provide for the pass-through of a percentage of the fees paid to the reseller by its customer for use of Rambus' patent and product licenses. Rambus does not recognize revenue for these arrangements until it has received notice of revenue earned by and paid to the reseller, accompanied by the pass-through payment from the reseller. Rambus does not pay commissions to the reseller for these arrangements.

Many of Rambus' licensees have the right to cancel their licenses. In such arrangements, revenue is only recognized to the extent that is consistent with the cancellation provisions. Cancellation provisions within such contracts generally provide for a prospective cancellation with no refund of fees already remitted by customers for products provided and payment for services rendered prior to the date of cancellation. Unbilled receivables represent enforceable claims and are deemed collectible in connection with the Company's revenue recognition policy.

*Royalty Revenues*

Rambus recognizes royalty revenues upon notification by the licensees and if collectibility is reasonably assured. The terms of the royalty agreements generally either require licensees to give Rambus notification and to pay the royalties within 60 days of the end of the quarter during which the sales occur or are based on a fixed royalty that is due within 45 days of the end of the quarter. From time to time, Rambus engages accounting firms other than its independent registered public accounting firm to perform, on Rambus' behalf, periodic audits of some of the licensee's reports of royalties to Rambus and any adjustment resulting from such royalty audits is recorded in the period such adjustment is determined. Rambus has two types of royalty revenues: (1) patent license royalties and (2) product license royalties.

*Patent licenses.* Rambus licenses its broad portfolio of patented inventions to semiconductor and systems companies who use these inventions in the development and manufacture of their own products. Such licensing agreements may cover the license of part, or all, of Rambus' patent portfolio. Rambus generally recognizes revenue from these arrangements as amounts become due and payable. The contractual terms of the agreements generally provide for payments over an extended period of time.

*Product licenses.* Rambus develops proprietary and industry-standard chip interface products, such as RDRAM and XDR that Rambus provides to its customers under product license agreements. These arrangements include royalties, which can be based on either a percentage of sales or number of units sold. Rambus recognizes revenue from these arrangements upon notification from the licensee and if collectibility is reasonably assured.

*Contract Revenues*

Rambus generally recognizes revenue in accordance with the provisions of SOP 81-1 for development contracts related to licenses of its chip interface products, such as XDR and FlexIO that involve significant engineering and integration services. Revenues derived from such license and engineering services may be recognized using the completed contract or percentage-of-completion method. For all license and service agreements accounted for using the percentage-of-completion method, Rambus determines progress to completion using input measures based upon labor-hours incurred. Rambus has evaluated use of output measures versus input measures and has determined that its output is not sufficiently uniform with respect to cost, time and effort per unit of output to use output measures as a measure of progress to completion. Part of these contract fees may be due upon the achievement of certain milestones, such as provision of certain deliverables by Rambus or production of chips by the licensee. The remaining fees may be due on pre-determined dates and include significant up-front fees.

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A provision for estimated losses on fixed price contracts is made, if necessary, in the period in which the loss becomes probable and can be reasonably estimated. If Rambus determines that it is necessary to revise the estimates of the work required to complete a contract, the total amount of revenue recognized over the life of the contract would not be affected. However, to the extent the new assumptions regarding the total amount of work necessary to complete a project were less than the original assumptions, the contract fees would be recognized sooner than originally expected. Conversely, if the newly estimated total amount of work necessary to complete a project was longer than the original assumptions, the contract fees will be recognized over a longer period. If there is significant uncertainty about the time to complete, or the deliverables by either party, the ability to estimate or counterparty performance, Rambus evaluates the appropriateness of applying the completed contract method of accounting under SOP 81-1. Such evaluation is completed by Rambus on a contract-by-contract basis. For all contracts where revenue recognition must be delayed until the contract deliverables are substantially complete, Rambus evaluates the realizability of the assets which the accumulated costs would represent and defer or expense as incurred based upon the conclusions of its realization analysis.

If application of the percentage-of-completion method results in recognizable revenue prior to an invoicing event under a customer contract, the Company will recognize the revenue and record an unbilled receivable. Amounts invoiced to Rambus' customers in excess of recognizable revenues are recorded as deferred revenues. The timing and amounts invoiced to customers can vary significantly depending on specific contract terms and can therefore have a significant impact on deferred revenues or unbilled receivables in any given period.

Rambus also recognizes revenue in accordance with SOP 97-2, SOP 98-4 and SOP 98-9 for development contracts related to licenses of its chip interface products that involve non-essential engineering services and post contract support ("PCS"). These SOPs apply to all entities that earn revenue on products containing software, where software is not incidental to the product as a whole. Contract fees for the products and services provided under these arrangements are comprised of license fees and engineering service fees which are not essential to the functionality of the product. Rambus' rates for PCS and for engineering services are specific to each development contract and not standardized in terms of rates or length. Because of these characteristics, the Company does not have a sufficient population of contracts from which to derive vendor-specific objective evidence.

Therefore, as required by SOP 97-2, after Rambus delivers the product, if the only undelivered element is PCS, Rambus will recognize revenue ratably over either the contractual PCS period or the period during which PCS is expected to be provided. Rambus reviews assumptions regarding the PCS periods on a regular basis. If Rambus determines that it is necessary to revise the estimates of the support periods, the total amount of revenue to be recognized over the life of the contract would not be affected. However, if the new estimated periods were shorter than the original assumptions, the contract fees would be recognized ratably over a shorter period. Conversely, if the new estimated periods were longer than the original assumptions, the contract fees would be recognized ratably over a longer period.

*Allowance for Doubtful Accounts*

Rambus' allowance for doubtful accounts is determined using a combination of factors to ensure that Rambus' trade and unbilled receivables balances are not overstated due to uncollectibility. The Company performs ongoing customer credit evaluation within the context of the industry in which it operates, does not require collateral, and maintains allowances for potential credit losses on customer accounts when deemed necessary. A specific allowance for a doubtful account up to 100% of the invoice or unbilled value will be provided for any problematic customer balances. Delinquent account balances are written-off after management has determined that the likelihood of collection is not possible. For all periods presented, Rambus had no allowance for doubtful accounts.

*Research and Development*

Costs incurred in research and development, which include engineering expenses, such as salaries and related benefits, depreciation, professional services and overhead expenses related to the general development of Rambus' products, are expensed as incurred. Software development costs are capitalized beginning when a product's technological feasibility has been established and ending when a product is available for general release to customers. Rambus has not capitalized any software development costs since the period between establishing technological feasibility and general customer release is relatively short and as such, these costs have not been significant.

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*Income Taxes*

Income taxes are accounted for using an asset and liability approach, which requires the recognition of deferred tax assets and liabilities for expected future tax events that have been recognized differently in Rambus' consolidated financial statements and tax returns. The measurement of current and deferred tax assets and liabilities is based on provisions of the enacted tax law and the effects of future changes in tax laws and rates. A valuation allowance is established when necessary to reduce deferred tax assets to amounts expected to be realized.

*Stock-Based Compensation*

For the years ended December 31, 2006, 2005 and 2004, the Company maintained stock plans covering a broad range of potential equity grants including stock options, restricted stock, performance stock and stock units. In addition, the Company sponsors an Employee Stock Purchase Plan ("ESPP"), whereby eligible employees were entitled to purchase Common Stock semi-annually, by means of limited payroll deductions, at a 15% discount from the fair market value of the Common Stock as of specific dates. See Note 8, "Employee Stock Option Plans," of Notes to Consolidated Financial Statements for a detailed description of the Company's plans.

Effective January 1, 2006, Rambus adopted Statement of Financial Accounting Standards No. 123(R), "*Share-Based Payment*" ("SFAS 123(R)"), which is a revision of Statement of Financial Accounting Standards No. 123 "*Accounting for Stock-Based Compensation*" ("SFAS 123"). SFAS 123(R) supersedes Rambus' previous accounting under Accounting Principles Board Opinion No. 25, *"Accounting for Stock Issued to Employees"* ("APB 25") and disclosure under SFAS 123. In March 2005, the SEC issued Staff Accounting Bulletin No. 107 ("SAB 107") relating to SFAS 123(R). Rambus has applied the provisions of SAB 107 in its adoption of SFAS 123(R). Under SFAS 123(R), compensation cost for all stock-based awards, including grants of employee stock options, restricted stock and other equity awards, is measured at fair value at grant date and recognized as compensation expense on a straight line basis over the employees' expected requisite service period. In addition, SFAS 123(R) requires the benefits of tax deductions in excess of recognized compensation expense to be reported as a financing cash flow, rather than as an operating cash flow as prescribed under previous accounting rules. The Company selected the modified prospective method of adoption, which recognizes compensation expense for the fair value of all share-based payments granted after January 1, 2006 and for the fair value of all awards granted to employees prior to January 1, 2006 that remain unvested on the date of adoption. This method does not require a restatement of prior periods. However, awards granted and still unvested on the date of adoption will be attributed to expense under SFAS 123(R), including the application of forfeiture rate on a prospective basis. Rambus' forfeiture rate represents the historical rate at which Rambus stock-based awards were surrendered prior to vesting over the trailing four years. SFAS 123(R) requires forfeitures to be estimated at the time of grant and revised on a cumulative basis, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Prior to fiscal year 2006, the Company accounted for forfeitures as they occurred, for the purposes of pro forma information under SFAS 123.

*Periods prior to the adoption of SFAS 123(R)*

Prior to January 1, 2006, the Company accounted for employee stock-based awards and its ESPP using the intrinsic value method in accordance with APB 25, FASB Interpretation No. 44 ("FIN 44"), *"Accounting for Certain Transactions Involving Stock-Based Compensation, an Interpretation of APB Opinion No. 25,"* FASB Technical Bulletin No. 97-1 ("FTB 97-1") "*Accounting under Statement 123 for Certain Employee Stock Purchase Plans with a Look-Back Option*," and related interpretations. The Company accounted for non-employee stock-based awards under the fair value method in accordance with EITF No. 96-18 "*Accounting for Equity Instruments that are Issued to Other than Employees for Acquiring, or in Conjunction with Selling, Goods or Services*." Under the intrinsic value method, no stock-based compensation expense for options had been recognized in the Company's Consolidated Statement of Operations if the exercise price of the Company's stock options granted to employees and directors equaled the fair

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market value of the underlying stock at the date of grant and shares granted under the ESPP were not issued at greater than a 15% discount. As a result of the Company's stock option investigation, it was determined that there were a significant number of grants that were issued below fair market value and the accounting disclosures and related charges are reflected in Note 3, "Restatement of Consolidated Financial Statements" of Notes to Consolidated Financial Statements.

Had stock-based compensation for 2005 and 2004 been determined based on the estimated fair value at the grant date for all equity awards consistent with the provisions of SFAS 123, the Company's net income and earnings per share for the years ended December 31, 2005 and 2004, as restated, would have been adjusted to the following pro forma amounts:

| *(in thousands, except per share amounts)* | 2005 As restated (2) | 2004 As restated (2) |
|---|---|---|
| Net income, as reported | $ 28,940 | $ 22,361 |
| Add: Stock-based employee compensation expense included in reported net earnings, net of tax | 7,228 | 11,217 |
| Deduct: Stock-based employee compensation expense determined under the fair value method, net of tax | (45,171) | (44,988) |
| Pro forma net loss | $ (9,003) | $ (11,410) |
| Basic earnings (loss) per share | | |
| As reported | $ 0.29 | $ 0.22 |
| Pro forma | $ (0.09) | $ (0.11) |
| Diluted earnings (loss) per share | | |
| As reported | $ 0.28 | $ 0.21 |
| Pro forma (1) | $ (0.09) | $ (0.11) |
| Weighted average shares used in per share calculations: | | |
| Basic | 99,876 | 101,931 |
| Diluted (1) | 103,530 | 108,547 |

(1) Because the pro forma disclosures result in a net loss, the diluted shares used in the pro forma per share calculations for diluted pro forma loss per share is the same as the basic shares. Using the actual diluted shares would be anti-dilutive.
(2) See Note 3, "Restatement of Consolidated Financial Statements," of the Notes to Consolidated Financial Statements.

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*Adoption of SFAS 123(R)*

Effective January 1, 2006, Rambus adopted SFAS 123(R), which requires the measurement and recognition of compensation expense in the Company's statement of operations for all share-based payment awards made to Rambus employees and directors, including employee stock options and employee stock purchases related to all Rambus' stock-based compensation plans based on estimated fair values.

SFAS 123(R) requires companies to estimate the fair value of stock-based compensation on the date of grant using an option-pricing model. The fair value of the award is recognized as expense over the requisite service periods in Rambus' consolidated statement of operations using the straight-line method consistent with the methodology used under SFAS 123. Under SFAS 123(R) the attributed stock-based compensation expense must be reduced by an estimate of the annualized rate of stock option forfeitures. The unrecognized expense of awards not yet vested at the date of adoption is recognized in net income (loss) in the periods after the date of adoption, using the same valuation method and assumptions determined under the original provisions of SFAS 123, Additionally, Rambus' deferred stock compensation balance of $20.1 million as of December 31, 2005 (as restated), which was accounted for under APB 25, was reclassified into its additional paid in capital upon the adoption of SFAS 123(R) on January 1, 2006.

The incremental effect of adopting SFAS 123(R) for the year ended December 31, 2006, including the effect of the restatements, was as follows:

| *(in thousands except per share data)* | Year ended December 31, 2006 |
|---|---|
| Additional pre-tax stock-based compensation | $ 29,260 |
| Additional stock-based compensation, net of tax | $ 18,182 |
| Effect on earnings per share | |
| Basic | $ 0.18 |
| Diluted | $ 0.18 |

The following table summarizes stock-based compensation expense related to employee stock options and employee stock purchase grants under SFAS 123(R) for the year ended December 31, 2006:

| *(in thousands, except for per share amounts)* | December 31, 2006 |
|---|---|
| Stock-based compensation expense by type of award: | |
| Employee stock options | $ 38,101 |
| Employee stock purchase plan | 1,148 |
| Nonvested equity stock and equity stock units | 1,274 |
| Total stock-based compensation | 40,523 |
| Tax effect on stock-based compensation | 15,559 |
| Net effect of stock-based compensation on net income | $ 24,964 |
| Effect on net income per share: | |
| Basic | $ 0.24 |
| Diluted | $ 0.24 |

*Stock Options*: During the year ended December 31, 2006, Rambus granted 2,397,850 stock options with an estimated total grant-date fair value of $42.0 million. During the year ended December 31, 2006, Rambus recorded stock-based compensation related to stock options of $38.1 million for all unvested options granted prior and after the adoption of SFAS 123(R). This amount includes the ongoing impact of the restatement of $6.8 million. (See Note 3, "Restatement of Consolidated Financial Statements.")

The effect of recording stock-based compensation for the year ended December 31, 2006 in accordance with SFAS 123 (R) includes a charge resulting from the Company's modifying the terms of 59 grants by offering an extension of time to exercise. Because the Company suspended all stock option exercises as of July 19, 2006 in connection with the

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stock options investigation, substantially all of the Company's employees and directors whose options were expiring and terminated employees whose remaining time to exercise vested options would have expired were given extensions of time to exercise those options during the year as their options approached expiration. This modification charge of $1.1 million is included in the above table under the caption "Employee Stock Options".

The total intrinsic value of options exercised was $110.2 million, $10.2 million and $88.0 million for the years ended December 31, 2006, 2005 and 2004, respectively. Intrinsic value is the total value of exercised shares on the date of exercise less the cash received from the employees to exercise the options.

The total cash received from employees as a result of employee stock option exercises was $55.3 million, $5.5 million and $41.4 million for the years ended December 31, 2006, 2005 and 2004, respectively.

The tax benefits realized as a result of employee stock option exercises, stock purchase plan purchases and vesting of equity stock and stock units were approximately $0.0 million for the year ended December 31, 2006, calculated in accordance with SFAS 123(R) and approximately $0.7 million and $23.2 million for the years ended December 31, 2005 and 2004, respectively, calculated in accordance with APB 25. The Company had a net tax shortfall from stock option exercises, stock plan purchases and vesting of equity stock and stock units for the year ended December 31, 2006 primarily due to the forfeiture of stock options by a former officer.

*Employee Stock Purchase Plan*: The compensation cost in connection with the plan for the year ended December 31, 2006 includes a charge resulting from the Company's modifying prior offerings. In accordance with the terms of the plan, if the fair market value on any given purchase date is less than the fair market value on the grant date, the grant offering is cancelled and all participants are enrolled in the next subsequent grant offering. A modification charge is recorded as a result of this grant offering cancellation and the issuance of a new grant offering. During the year ended December 31, 2006, the Company recorded $0.2 million in modification charges related to the ESPP which is included in the table above under the caption "Employee Stock Purchase Plan."

*Valuation Assumptions*

Rambus estimated the fair value of stock options using the Black-Scholes-Merton model ("BSM"). This is the same model which it previously used in preparing its pro forma disclosure required under SFAS 123. The BSM model determines the fair value of stock-based compensation and is affected by Rambus' stock price on the date of the grant as well as assumptions regarding a number of highly complex and subjective variables. These variables include expected volatility, expected life of the award, expected dividend rate and expected risk-free rate of return. The assumptions for expected volatility and expected life are the two assumptions that significantly affect the grant date fair value. The BSM option-pricing model was developed for use in estimating the value of traded options that have no vesting or hedging restrictions and are fully transferable. Because Rambus' employee stock options have certain characteristics that are significantly different from traded options, and because changes in the subjective assumptions can materially affect the estimated value, if actual results differ significantly from these estimates, stock-based compensation expense and Rambus' results of operations could be materially impacted.

The fair value of stock awards and ESPP offerings is estimated as of the grant date using the BSM option-pricing model, assuming a dividend yield of 0% and the additional weighted-average assumptions as listed in the following table:

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| | Stock Option Plans Twelve Months Ended December 31, | | |
|---|---|---|---|
| | 2006 | 2005 As restated (1) | 2004 As restated (1) |
| Expected stock price volatility | 61% - 78% | 54% - 81% | 101% - 103% |
| Risk-free interest rate | 4.4% - 5.0% | 3.6% - 4.4% | 1.8% - 3.8% |
| Expected term (in years) | 6.3 - 6.6 | 4.0 - 6.0 | 2.0 - 6.0 |
| Weighted-average fair value of stock options granted | $17.51 | $10.11 | $18.56 |

(1) See Note 3, "Restatement of Consolidated Financial Statements," of the Notes to Consolidated Financial Statements.

| | Employee Stock Purchase Plan Twelve Months Ended December 31, | | |
|---|---|---|---|
| | 2006 (2) | 2005 As restated (1) | 2004 As restated (1) |
| Expected stock price volatility | — | 51% - 67% | 55% - 88% |
| Risk-free interest rate | — | 3.2% - 4.4% | 1.2% - 2.6% |
| Expected term (in years) | — | 0.5 - 2.0 | 0.5 - 2.0 |
| Weighted-average fair value of purchase rights granted under the purchase plan | — | $6.14 | $ 7.86 |

(1) See Note 3, "Restatement of Consolidated Financial Statements," of the Notes to Consolidated Financial Statements.
(2) No grants were made under the employee stock purchase plan in 2006. See Note 8, "Employee Stock Option Plans."

*Expected Stock Price Volatility:* Effective January 1, 2006, Rambus evaluated the assumptions used to estimate volatility and determined that under SAB 107, given the volume of market activity in its market traded options greater than one year, it would use the implied volatility of its nearest-to-the-money traded options. The Company believes that the use of implied volatility is more reflective of market conditions and a better indicator of expected volatility. If there is not sufficient volume in its market traded options, for any period, the Company will use an equally weighted blend of historical and implied volatility. For the year ended December 31, 2005, the Company used an equally weighted historical and market-based implied volatility for the computation of stock-based compensation. For the year ended December 31, 2004, the Company used historical volatility for the computation of stock-based compensation.

*Risk-free Interest Rate:* Rambus bases the risk-free interest rate used in the BSM valuation method on implied yield currently available on the U.S. Treasury zero-coupon issues with an equivalent term. Where the expected terms of Rambus' stock-based awards do not correspond with the terms for which interest rates are quoted, Rambus used the nearest rate from the available maturities.

*Expected Term:* The expected term of options granted represents the period of time that options granted are expected to be outstanding. Prior to the adoption of SFAS 123(R), the Company used only historical data to estimate option exercise and employee termination within the model. For the year ended December 31, 2006, the average expected life was determined using a Monte Carlo simulation model. The expected term of ESPP grants was based upon the length of each respective purchase period or tranche for each offering (0.5 to 2.0 years).

*Tax Effects of Stock-Based Compensation*

Rambus will only recognize a tax benefit from windfall tax deductions for stock-based awards in additional paid-in capital if an incremental tax benefit is realized after all other tax attributes currently available have been utilized. In addition, Rambus has elected to account for the indirect effects of stock-based awards on other tax attributes, such as the research tax credits, through the statement of operations as part of the tax effect of stock-based compensation.

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On January 1, 2006 Rambus adopted the "long method" in accordance with SFAS 123(R) to calculate the excess tax credit pool. The long method requires a detailed calculation of the January 1, 2006 balance of the portion of the excess/shortfall tax benefit credits recorded in the additional paid-in capital account. The tax effect on stock-based compensation is calculated as the stock-based compensation that the Company believes is deductible multiplied by the applicable statutory tax rate.

See Note 11 "Income Taxes" for additional information.

*Computation of Earnings (Loss) Per Share*

Earnings (loss) per share is calculated in accordance with Statement of Financial Accounting Standard No. 128, "Earnings Per Share," ("SFAS 128"). Basic earnings (loss) per share is calculated by dividing the earnings (loss) by the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per share is calculated by dividing the earnings (loss) by the weighted average number of common shares and potentially dilutive securities outstanding during the period. Potentially dilutive common shares consist of incremental common shares issuable upon exercise of stock options, employee stock purchases, restricted stock and restricted stock units and shares issuable upon the conversion of convertible notes. The dilutive effect of the convertible notes is calculated under the if-converted method. The dilutive effect of outstanding shares is reflected in diluted earnings per share by application of the treasury stock method. This method includes consideration of the amounts to be paid by the employees, the amount of excess tax benefits that would be recognized in equity if the instruments were exercised and the amount of unrecognized stock-based compensation related to future services. No potential dilutive common shares are included in the computation of any diluted per share amount when a loss is reported.

*Cash and Cash Equivalents*

Cash equivalents are highly liquid investments with original or remaining maturities of three months or less at the date of purchase. The Company maintains its cash balances with high quality financial institutions and has not experienced any material losses.

*Marketable Securities*

Available-for-sale securities are carried at fair value, based on quoted market prices, with the unrealized gains or losses reported, net of tax, in stockholders' equity as part of accumulated other comprehensive income (loss). The amortized cost of debt securities is adjusted for amortization of premiums and accretion of discounts to maturity, both of which are included in interest income. Realized gains and losses are recorded on the specific identification method and are included in interest and other income, net. The Company reviews its investments in marketable securities for possible permanent impairments on a regular basis. If any loss on investment is believed to be other than temporary, a charge will be taken to interest and other, net. Due to the high credit quality and short term nature of the Company's investments, there have been no permanent impairments noted to date.

*Fair Value of Financial Instruments*

The amounts reported for cash equivalents, marketable securities, account receivables, accounts payable and other accrued liabilities are considered to approximate fair values based upon comparable market information available at the respective balance sheet dates.

*Property and Equipment*

Computer equipment, computer software and furniture and fixtures are stated at cost and depreciated on a straight-line basis over an estimated useful life of three years. Certain software licenses are depreciated over three to five years, depending on the term of the license. Leasehold improvements are amortized on a straight-line basis over the shorter of their estimated useful lives or the initial terms of the leases. Upon disposal, assets and related accumulated depreciation are removed from the accounts and the related gain or loss is included in results from operations.

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*Goodwill*

In accordance with Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets", ("SFAS 142"), Rambus assesses the impairment of goodwill on an annual basis, and potentially more frequently if events or changes in circumstances indicate that the carrying value may not be recoverable. Factors Rambus considers important which could trigger an impairment review include the following:

- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner of Rambus' use of the acquired assets or the strategy for its overall business;
- significant negative industry or economic trends;
- significant decline in Rambus' stock price for a sustained period; and
- Rambus' market capitalization relative to net book value.

SFAS 142 prescribes a two-phase process for impairment testing of goodwill. The first phase screens for impairment, while the second phase (if necessary) measures the impairment. Rambus completed its first phase impairment analysis as of December 31, 2006 and found no instance of impairment of its recorded goodwill of $3.3 million at December 31, 2006. If Rambus' estimates or the related assumptions change in the future, Rambus may be required to record an impairment charge for goodwill to reduce its carrying amount to its estimated fair value.

*Impairment of Long-Lived Assets and Other Intangible Assets*

Rambus evaluates the recoverability of long-lived assets with finite lives in accordance with Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment of Long-Lived Assets", ("SFAS 144"). Intangible assets, including purchased technology and other intangible assets, are carried at cost less accumulated amortization. Finite-lived intangible assets are being amortized on a straight-line basis over their estimated useful lives of three to ten years. SFAS 144 requires recognition of impairment of long-lived assets whenever events or changes in circumstances indicate that the carrying value amount of an asset may not be recoverable. An impairment charge is recognized in the event the net book value of such assets exceeds the future undiscounted cash flows attributable to such assets. A significant impairment of finite-lived intangible assets could have a material adverse effect on Rambus' financial position and results of operations.

*Investments in Non-Consolidated Companies*

Rambus makes investments in early stage private companies and private equity funds for business and strategic purposes. These investments are accounted for under the cost method, as Rambus does not have the ability to exercise significant influence over these companies' operations. Rambus periodically monitors its investments for impairment and will record reductions in carrying values if and when necessary. The evaluation process is based on information that it requests from these privately-held companies. This information is not subject to the same disclosure regulations as U.S. public companies, and as such, the basis for these evaluations is subject to the timing and the accuracy of the data received from these companies. As part of this evaluation process, a review of each company's cash position, recent financing activities, financing needs, earnings/revenue outlook, operational performance, management/ownership changes, and competition is performed. If Rambus determines that the carrying value of an investment is at an amount above fair value, or if a company has completed a financing with new third-party investors based on a valuation significantly lower than the carrying value of Rambus' investment and the decline is other than temporary, an investment

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loss is recorded in Rambus' consolidated statement of operations. In calculating the loss to be recorded, Rambus takes into account the latest valuation of each of the portfolio companies based on recent sales of equity securities to outside third party investors.

In the twelve months ended December 31, 2004, Rambus sold its investment in Tessera, a publicly traded company, for a pre-tax gain of $3.6 million, which is included in "Interest and other income, net" on the consolidated statement of operations.

*Foreign Currency Translation*

Rambus considers the local currency to be the functional currency for its international subsidiaries. The translation from foreign currencies to U.S. dollars is performed for assets and liabilities using current exchange rates in effect at the balance sheet date and for revenue and expense accounts using the weighted average exchange rate during the period. Adjustments resulting from such translation are included in stockholders' equity as currency translation adjustment and aggregated within accumulated other comprehensive income (loss). Gains or losses resulting from foreign currency transactions are recorded in the results of operations and have not been significant for any periods presented.

*Segment Reporting*

Statement of Financial Accounting No. 131, "Disclosures about Segments of an Enterprise and Related Information," ("SFAS 131") established standards for reporting information about operating segments in a company's financial statements. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Rambus has identified one operating and reporting segment, the design, development and licensing of chip interface technologies and architectures. This segment operates in three geographic regions: North America, Asia and Europe. Enterprise-wide information is provided in accordance with SFAS 131. Information concerning the geographic breakdown of revenues and identifiable assets is set forth in Note 13, "Business Segments, Exports and Major Customers."

*Advertising*

Rambus expenses all advertising costs as incurred. Advertising costs were not significant in 2006, 2005 and 2004.

*Comprehensive Income*

Comprehensive income is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources, including foreign currency translation adjustments and unrealized gains and losses on marketable securities. Other comprehensive income is presented in the statement of stockholders' equity and comprehensive income.

*Litigation*

Rambus is involved in certain legal proceedings. Based upon consultation with outside counsel handling its defense in these matters and an analysis of potential results, Rambus accrues for losses related to litigation if it determines that a loss is probable and can be reasonably estimated. If a loss cannot be estimated, Rambus reviews the range of possible outcomes and accrues the low end of the range of estimates. Any such accrual would be charged to expense in the appropriate period. Rambus recognizes litigation expenses in the period in which the litigation services were provided.

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*Recent Accounting Pronouncements*

In February 2007, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 159 "The Fair Value Option for Financial Assets and Financial Liabilities—Including an amendment of FASB Statement No. 115" ("SFAS 159"). SFAS 159 is effective for the Company in fiscal years beginning January 1, 2008. SFAS 159 permits an entity to choose to measure many financial instruments and certain other items at fair value at specified election dates. Subsequent unrealized gains and losses on items for which the fair value option has been elected will be reported in earnings. The Company is currently evaluating the potential impact of this statement on its consolidated financial position, results of operations and cash flows.

In September 2006, the SEC issued Staff Accounting Bulletin No. 108, "Considering the Effects of Prior Year Misstatements in Current Year Financial Statements," ("SAB 108"). SAB 108 addresses the diversity in practice used to quantify financial statement misstatements and establishes an approach that requires quantification of financial statement misstatements based on the effects of the misstatements on a company's financial statements and related disclosures. SAB 108 is effective for fiscal years ending after November 15, 2006. As of December 31, 2006 no material misstatements exist in the Company's financial statements. As a result, application of SAB 108 did not have a material impact on the Company's consolidated financial statements.

In February 2006, the FASB issued SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments, an amendment of SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities and SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities". ("SFAS 155"). SFAS 155 permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation. SFAS 155 is effective for the Company for all financial instruments acquired or issued after July 1, 2007. The Company does not currently hold any such instruments.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. The provisions of SFAS 157 are effective for the Company beginning January 1, 2008. The Company has not completed the process of evaluating the impact of the adoption of SFAS 157.

In July 2006, the FASB issued Emerging Issues Task Force Issue No. 06-3, "How Taxes Collected from Customers and Remitted to Governmental Authorities Should be Presented in the Income Statement (that is, Gross versus Net Presentation)," ("EITF 06-3"). The adoption of EITF 06-3 did not have an impact on Rambus' consolidated financial position and results of operations. The Company's accounting policy has been to present the above mentioned taxes, if any, on a net basis, excluded from revenues.

In June 2006, the FASB issued FASB Interpretation No. 48 ("FIN 48"), "Accounting for Uncertainty in Income Taxes"—an interpretation of FASB Statement No. 109, "Accounting for Income Taxes" ("SFAS 109"), which clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS 109. This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. This interpretation is effective for fiscal years beginning after December 15, 2006 and is required to be adopted by Rambus in the first quarter of fiscal 2007.

As a result of the adoption of FIN 48 on January 1, 2007, the Company's unrecognized tax benefits are expected to decrease by $0.3 million, which will be accounted for as a decrease of $0.3 million to the opening balance of accumulated deficit. In addition, upon the adoption of FIN 48, $2.7 million of unrecognized tax benefits will be reclassified from long-term deferred tax assets to long-term taxes payable.

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### 3. Restatement of Consolidated Financial Statements

*Audit Committee Investigation of Historical Stock Option Practices*

In early 2006, an academic study and numerous subsequent press reports began to publicize the likely widespread occurrence of accounting and corporate governance irregularities with respect to the granting of stock options and other equity awards at over 100 companies, many in the high-tech sector. One report included Rambus as one of the companies surveyed with a high risk of having backdated stock option grants. As a result, in late May 2006, the Company conducted an initial review in which it discovered apparent irregularities in past stock option grants and reported its findings to the Audit Committee and the Board of Directors.

On May 30, 2006, the Audit Committee commenced an internal investigation of the timing of past stock option grants and other related accounting issues. Each of the members of the Audit Committee had joined the Company's Board of Directors and Audit Committee after January 1, 2005. The Audit Committee retained independent legal counsel and an independent accounting firm to assist in the investigation.

On July 17, 2006, the Audit Committee concluded that the actual dates of determination for certain past stock option grants differed from the originally stated grant dates for such awards. Because the prices at the originally stated grant dates were lower than the prices on the actual dates of the determination, Rambus concluded that it should have recognized material amounts of stock-based compensation expense which were not accounted for in its previously issued consolidated financial statements. Therefore, the Audit Committee and management concluded that Rambus' previously issued consolidated financial statements for the fiscal years 2003, 2004 and 2005 which were included in the Company's 2005 Annual Report on Form 10-K, Rambus' Quarterly Reports on Form 10-Q filed with respect to each of the applicable quarters in these fiscal years, and the consolidated financial statements included in its Quarterly Report on Form 10-Q for the first quarter of fiscal year 2006, should no longer be relied upon and would be restated.

*Findings and Remedial Actions*

By October 18, 2006, the Audit Committee had substantially completed its findings with respect to the timing of the Company's historical stock option grants. The independent investigation over the previous four months included a review of over 200 stock option granting actions from the time of its initial public offering through the commencement of the investigation in late May 2006. The review encompassed over 1.5 million emails and other documents, and over 50 interviews with current and former executive officers, directors, employees and advisors.

The results of the investigation were consistent with the Audit Committee's earlier conclusion that the Company's previously filed consolidated financial statements should no longer be relied upon. Rambus is disclosing the restatement of the consolidated financial statements for the affected periods by filing this Annual Report on Form 10-K for the year ended December 31, 2006, which includes the restatement of the consolidated financial statements for the 2005 and 2004 fiscal years, as well as restated supplementary financial data for the first quarter of 2006. In addition, the errors Rambus identified impacted the Company's consolidated financial statements for the periods prior to the year ended December 31, 2004. In the restated consolidated financial statements in this Annual Report on Form 10-K, the cumulative impact of the errors as of December 31, 2003 is represented as a change to the opening balance of accumulated deficit, additional paid in capital and deferred taxes as of January 1, 2004. The impact of these errors will continue to have an effect on Rambus' consolidated financial statements for periods through fiscal 2009.

On August 30, 2007, the Audit Committee completed its investigation. The Audit Committee concluded that: (1) there was retroactive pricing of stock options granted to nearly all employees who received options, primarily during the periods from September 30, 1997 to December 31, 2004; (2) the retroactively priced options were not accounted for correctly in the Company's previously issued consolidated financial statements; (3) the retroactive pricing of options in many instances was intentional, not inadvertent or as a result of administrative error; (4) the retroactive pricing of options involved the selection of low exercise prices by certain former executive officers, and other former executives may have been aware of this conduct; (5) vesting terms on stock options for certain terminating employees were changed without proper authorization; and (6) the retroactive pricing of options in many instances involved the falsification of Stock Option Committee Memoranda, Unanimous Written Consents (UWC) and minutes of the Compensation Committee and offer letters to employees, resulting in erroneous statements being made in financial and other reports previously filed with the SEC, as well as in information previously provided to the Company's independent registered public accounting firm.

Because the retroactive pricing was the result of the actions of only a few individuals, the Board of Directors decided that the Company should continue to honor the retroactively priced options in most instances.